

Strategies for Success in the New Economy



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MISSOURI ECONOMIC RESEARCH & INFORMATION CENTER

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Executive Summary

The "New Economy" has emerged, perhaps to the dismay of some, and has firmly established itself as the economy of the future. Telecommunications, information technology and services drive this new knowledge-based economy. In order to be successful in this new environment it is imperative that state governments become flexible, highly adaptable and open to change. Based on these ideas, the Progressive Policy Institute and the National Governor's Association for Best Practices have outlined several strategies for success in the new economy.

- ✓ *Invest in people; creating a skilled workforce*
- ✓ *Nurture entrepreneurs; they are the drivers of the new economy*
- ✓ *Provide state-of-the-art infrastructure*
- ✓ *Collaborate to create high-tech clusters*
- ✓ *Create a customer-oriented government*
- ✓ *Streamline government taxes and regulations*
- ✓ *Enhance the quality of life in communities*

Several states have already begun outlining programs and forming policies to help them achieve economic growth and prosperity in the new economy. Over the next several months, MERIC will produce a series of best practices studies focusing on economic development and workforce strategies for the new economy. Specifically, these reports will detail programs that other states are implementing, and report on the success or failure of those programs. The first study will focus on investing in people through workforce training initiatives. MERIC's goal is to keep Missouri policymakers informed of successful programs that may benefit the State and lead to more innovative programs for Missouri.

The new economy brings many challenges and opportunities to state government. It is critical that Missouri respond to these challenges. Failing to do so can only result in low worker productivity, stalled economic growth, stagnant living conditions, and reduced opportunity for Missouri's citizens.

I. The New Economy

Over the last ten years revolutionary advances in information technology have spurred a myriad of changes in the realm of economics. The nation's economy has become increasingly globalized. Telecommunications, information technologies, and service industries have restructured the economic base of the United States. The "New Economy" has emerged, perhaps to the dismay of some, and has firmly established itself as the economy of the future.

The new economy is a knowledge-driven and idea-based economy where the keys to wealth and job creation are the extent to which ideas, innovation, and technology are embedded in all sectors of the economy.¹ With the new economy comes new rules and new strategies for growth and prosperity. The new economy is not focused on manufacturing, infrastructure, and incremental cost reductions, though these will remain important factors for future economic development. The driving forces of the new economy will be knowledge, services and technology. Tax breaks and incentives are being replaced with pools of skilled workers, "wired" site locations, research centers, and quality communities as lures for business development and expansion.

The unprecedented economic expansion of the 1990's has allowed many states to ignore the new strategies needed for survival in the new economy. However, with the current economic downturn, states must now begin the hard work of transforming old economic policies into sound, proactive growth strategies designed to promote long-term economic growth.

II. Strategies for the New Economy

The National Governor's Association for Best Practices as well as the Progressive Policy Institute have closely examined the intricacies of the new economy and have developed several strategies to assist states in achieving economic growth and prosperity. The strategies outlined by these organizations have been combined for this publication into the following fundamental concepts.

First, both of these organizations have concluded that the single most important policy focus for this new economy hinges on "*investment in people*". A skilled labor force has become an increasingly important cornerstone for economic growth and development in the new economic climate. States must develop strategies to foster the growth of a skilled workforce. Many states have discovered that it is not enough to attract competent workers. It is imperative that states create skilled workers by strengthening K-12 education and higher education programs, creating and implementing workforce skills programs, and encouraging lifelong learning.

¹ Atkinson, Robert; Court, Randolph; Ward, Joseph, "Economic Development Strategies for the New Economy," *The State New Economy Index* (July 1999), <<http://www.neweconomyindex.org/states/strategies.html>>.

Second, it is the consensus of many economists that the creation of new jobs will come not from the attraction of existing businesses but from entrepreneurs. States that nurture entrepreneurs

- ✓ *Invest in people; creating a skilled workforce*
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- ✓ *Create a customer-oriented government*
- ✓ *Streamline government taxes and regulations*
- ✓ *Enhance the quality of life in communities.*

and innovation will achieve success in the new economy. Two-thirds of per-capita economic growth stems from technological innovation.² There are a number of ways for states to assist entrepreneurs, ranging from simple low interest loans and streamlined business regulations to supporting commercialization of innovation. If states want to prosper in the new economy and increase personal income, they must embrace technological innovation and support entrepreneurs.

Once states have a skilled workforce in place and have created an atmosphere conducive to new businesses, they must provide the infrastructure to support them, specifically digital infrastructure. The knowledge-based economy relies heavily on digital commerce, and the availability of advanced broadband capabilities and telecommunications will be critical to the success of businesses grounded in the new economy. However, the importance of digital commerce does not mean states can neglect tangible infrastructure such as highways, railways, airports and waterways. Businesses will still require quick access to transportation arteries to transfer materials and finished goods. By improving and maintaining traditional infrastructure as well as helping build and support the digital infrastructure needed for the new economy, states will ensure a smooth transition to the digital world.

Collaboration is a key component of success in the new economy. States should encourage civic and private collaboration by creating policy councils to bring together key leaders from business, government, labor, civic, and education groups. These councils can conduct in-depth studies in an effort to develop economic strategies that enjoy widespread support. Partnerships between local business leaders and universities can result in ultra-modern research centers that can then be used to attract a variety of high-tech industries. According to the

Progressive Policy Institute, the most successful states in the new economy are those with the most effective collaborative networks.

The transition to an innovative and customer-oriented government is critical to economic growth in the new economy. It is the consensus that states that do not transform to a customer-oriented, digital government will impede the progress of the digital economy. In order for governments to achieve this transformation, they must become flexible, customer-focused, accountable and

² Atkinson; Court; Ward, "Economic Development Strategies for the New Economy."

performance-oriented. These changes will make a state attractive to both mobile, well-educated workers and high-tech industries.

To achieve many of the goals listed state governments should strive to streamline taxes and regulations. The development of uniform regulatory and tax systems will assist entrepreneurs in the creation of new businesses and products as well as help lay the groundwork for a customer-oriented government. States that ease the time and expense of doing business will catch the attention of businesses looking for locations that will help them conduct business more efficiently.

Finally, to prosper in the new economy states must strive to preserve and improve the quality of life in their communities. Investing in people through workforce training and creating first-rate educational systems will help governments achieve this goal. While working to increase jobs and personal income, civic and government leaders must not forget to nurture the aesthetic needs of a community, including recreational opportunities, environmental qualities, and community amenities. State government should not abandon community enhancement efforts, but should ensure efforts are modernized and result-oriented. Quality communities will attract both quality workers and businesses.

III. New Economy Index Rankings

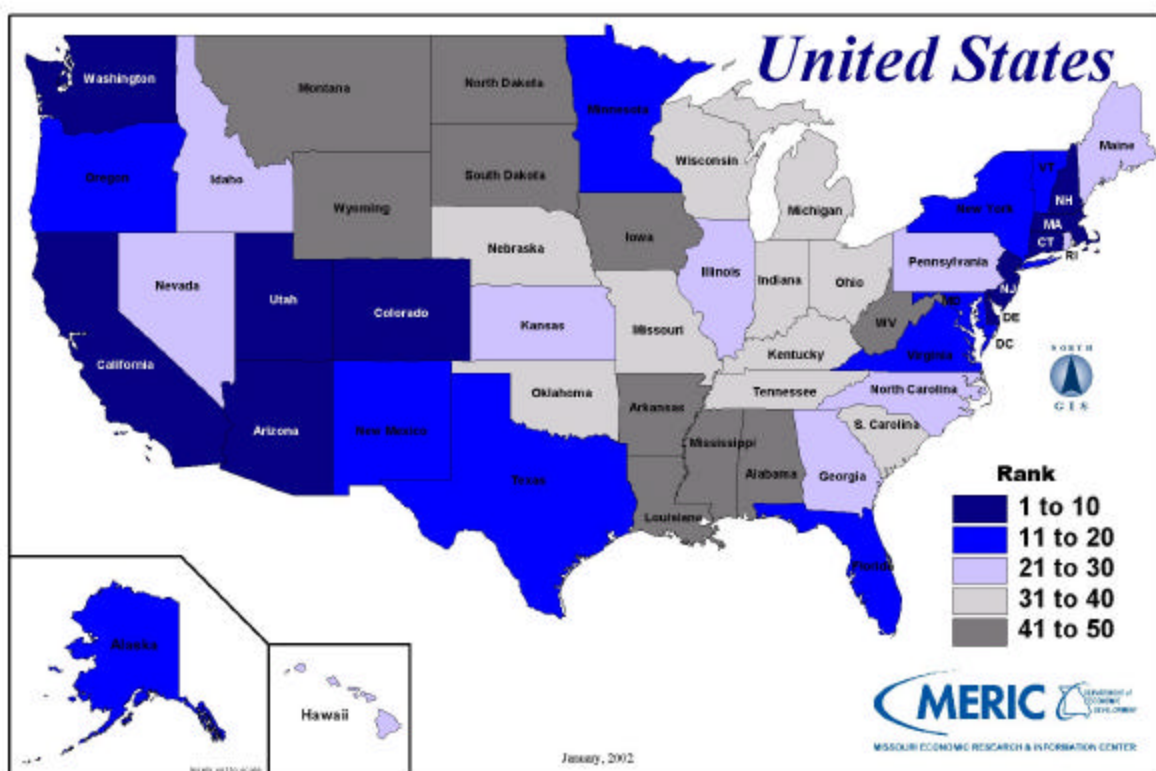
The new economy offers opportunities for state government as well as challenges. In order to be successful in this new environment it is imperative that state governments become flexible, highly adaptable and open to change. Based on these ideas, the Progressive Policy Institute has analyzed each of the 50 states according to 17 economic indicators. The purpose of the "New Economy State Index" is not to rank state business climates or economic performance, but rather to help states focus attention toward a policy framework that will promote economic development in the new economy.

The common thread among high-ranking states appears to be their ability to adapt quickly to changes in the economy. The expectation that wealthy states score high is true, but a state's ability to shed old practices and embrace new ones is the key to their economic transformation.

Missouri currently ranks 35th among the states with a score of 44.24. The top twenty states were the only ones to receive scores above 50.0. Compared to surrounding states, Missouri ranks 4th, trailing only Illinois (22), Kansas (27) and Tennessee (31). Missouri's composite score of 44.24 is below the national average of 48.07.

Top 10 States By Rank		
Rank	State	Score
1	Massachusetts	82.27
2	California	74.25
3	Colorado	72.32
4	Washington	68.99
5	Connecticut	64.89
6	Utah	63.98
7	New Hampshire	62.45
8	New Jersey	60.86
9	Delaware	59.87
10	Arizona	59.23
35	Missouri	44.24
National Average		48.07

State New Economy Index Ranking



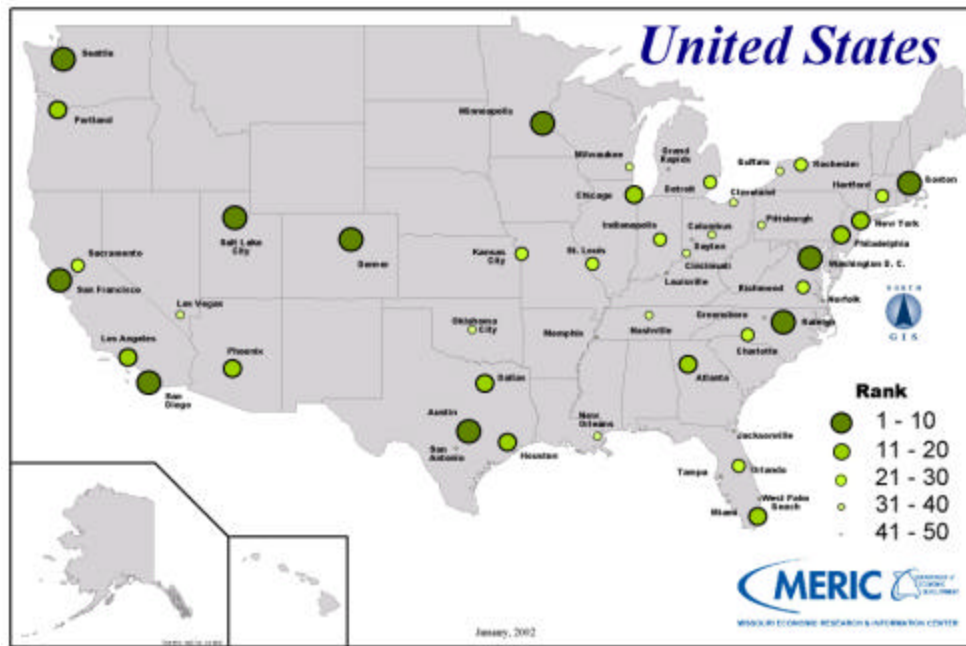
Progressive Policy Institute's analysis of Missouri has brought to light some of the state's strengths, some of which are surprising. Specifically, Missouri ranks 4th in digital government, trailing only Washington, Wisconsin, and Alaska. Likewise, Missouri ranks 8th in "gazelle" jobs, 12th in office jobs, 16th in venture capital, and 19th in industry investment and R&D. Missouri has several weaknesses as well. Missouri's rank of 38th in workforce education (the lowest rank the state received in an individual category) and 38th in aggregated globalization is particularly troubling. The table below presents scores by general category. Please see Appendix A for more details.

Indicators for Missouri	Rank	Score
Overall	35	44.24
Aggregated Knowledge Jobs Scores	26	5.57
Aggregated Globalization Scores	38	5.06
Aggregated Economic Dynamism Scores	29	5.7
Aggregated Digital Economy Scores	22	6.2
Aggregated Innovation Capacity Scores	27	5.11

The Progressive Policy Institute used 16 similar indicators to evaluate the progress in the knowledge-based economy of the 50 largest metropolitan areas in the Nation. For Missouri cities, Kansas City ranked 24 and St. Louis ranked 27. Each scored close to average, with both cities posting scores slightly lower than the national average of 37.6.

Rank	Area	Score
1	San Francisco	95.6
2	Austin	77.9
3	Seattle	68.0
4	Raleigh-Durham	61.4
5	San Diego	61.4
6	Washington	60.6
7	Denver	58.1
8	Boston	54.0
9	Salt Lake City	49.8
10	Minneapolis	49.0
24	Kansas City	35.0
27	St. Louis	31.9
Metro Average		37.6

Metropolitan New Economy Index Ranking



Scores in individual categories for Kansas City and St. Louis demonstrate noticeable differences between the two. For example, St. Louis ranked 6th in academic R&D, and 15th in venture capital and science and engineering degrees while Kansas City ranked 46th in academic R&D, 45th in science and engineering degrees and 43rd in venture capital. Conversely, Kansas City is leading the way in globalization with an aggregated 22nd rank compared to St. Louis' rank of 41st. Kansas City also seems to have the advantage in the digital economy, with an aggregated rank of 12th compared to St. Louis' 26th rank.

Kansas City and St. Louis also have a number of similarities both good and bad. For instance, both cities rank poorly in workforce education, 42nd and 35th respectively. Yet both cities rank high for computer use in schools (St. Louis 2nd, Kansas City 11th) and Internet backbone (St. Louis 12th, Kansas City 2nd). (See Appendix B)

Indicators	Kansas City		St. Louis	
	Rank	Score	Rank	Score
Overall Score	24	35.0	27	31.9
Aggregated Knowledge Jobs	36	8.9	37	8.4
Aggregated Globalism Scores	22	9.4	41	8.7
Aggregated Economic Dynamism Scores	20	10.0	18	10.1
Aggregated Digital Economy Scores	12	10.8	26	8.2
Aggregated Innovation Capacity	41	7.5	17	9.7

IV. Conclusion

While Missouri's overall score may be below average, the state and its metro areas are in position to take advantage of several opportunities. It is imperative that Missouri begin taking proactive steps to ensure continued economic growth within the new economy, starting with the strengths and the strategies outlined in this report. As the new economy pushes forward, those states implementing these strategies and focusing on the indicators found in the New Economy Index are expected to experience continued economic development and expansion as well as faster per-capita income growth.

Clearly, Kansas City and St. Louis have a number of opportunities for improvement. However, Kansas City and St. Louis have a unique opportunity to partner with each other, learning from each other's strengths. Several of Kansas City, St. Louis, and the state's strengths coincide with the strategies for the new economy, particularly regarding digital capabilities in urban areas and state government.

Some states have already begun outlining programs and forming policies to help them achieve economic growth and prosperity in the new economy. Tennessee has implemented a bonus program as incentive for welfare recipients to complete education and training. Oklahoma is proposing sweeping new tax regulations. Kentucky has devised a comprehensive plan for "smart growth" focusing on planned growth, transportation issues, and improving the quality of life in their communities. Kansas will be releasing *Making the Knowledge Economy Work for all Kansans*, an ambitious look at strategic planning for the entire state, in early 2002. Wisconsin, West Virginia, and New Hampshire have each released comprehensive economic development plans centered on the fundamental concepts presented earlier.

The list of innovative programs being implemented across the country continues to grow. Over the next several months, MERIC will produce a series of best practices studies focusing on the strategies for the new economy outlined in this report and how other states are responding. Specifically, reports will detail programs that other states are implementing and report on the success or failure of those programs. The first study will focus on investing in people through workforce training initiatives. MERIC's goal is to keep Missouri policymakers informed of successful programs that may benefit the state and lead to more innovative programs for Missouri.

The new economy brings many challenges and opportunities for state government. It is critical that Missouri respond to these challenges. Failing to do so can only result in low worker productivity, stalled economic growth, stagnant living conditions, and reduced opportunity for Missouri's citizens.³

³ Atkinson, Court, Ward, "Economic Development Strategies for the New Economy."

Appendix A. States New Economy Index Rankings

STATES BY RANK					
Rank	State	Score	Rank	State	Score
1	Massachusetts	82.27	26	Hawaii	46.14
2	California	74.25	27	Kansas	45.80
3	Colorado	72.32	28	Maine	45.62
4	Washington	68.99	29	Rhode Island	45.31
5	Connecticut	64.89	30	North Carolina	45.16
6	Utah	63.98	31	Tennessee	45.14
7	New Hampshire	62.45	32	Wisconsin	44.92
8	New Jersey	60.86	33	Ohio	44.77
9	Delaware	59.87	34	Michigan	44.59
10	Arizona	59.23	35	Missouri	44.24
11	Maryland	59.16	36	Nebraska	41.81
12	Virginia	58.76	37	Indiana	40.95
13	Alaska	57.70	38	South Carolina	39.69
14	Minnesota	56.53	39	Kentucky	39.40
15	Oregon	56.10	40	Oklahoma	38.63
16	New York	54.48	41	Wyoming	34.49
17	Texas	52.31	42	Iowa	33.51
18	Vermont	51.87	43	South Dakota	32.33
19	New Mexico	51.43	44	Alabama	32.28
20	Florida	50.75	45	North Dakota	28.99
21	Nevada	49.03	46	Montana	28.98
22	Illinois	48.37	47	Louisiana	28.22
23	Idaho	47.93	48	West Virginia	26.79
24	Pennsylvania	46.72	49	Arkansas	26.22
25	Georgia	46.61	50	Mississippi	22.63
U.S. Average		48.07			

Source: Progressive Policy Institute

Indicators for Missouri	Rank	Score
Overall	35	44.24
Aggregated Knowledge Jobs Scores	26	5.57
Office Jobs <i>Jobs in offices as a share of the total number of jobs in each state.</i>	12	20.20%
Managerial, Professional, and Technical Jobs <i>Managers, professionals, and technicians as a share of the total workforce.</i>	31	23.50%
Workforce Education <i>A weighted measure of the educational attainment of the workforce (advanced degrees, bachelor's degrees, associate's degrees, or some college course work).</i>	38	52.65
Aggregated Globalization Scores	38	5.06
Export Focus of Manufacturing <i>The share of jobs in manufacturing companies dependent upon exports.</i>	36	15.30%
Foreign Direct Investment <i>The percentage of each state's workforce employed by foreign companies.</i>	36	3.00%
Aggregated Economic Dynamism Scores	29	5.7
"Gazelle" Jobs <i>Jobs in gazelle companies (companies with annual sales revenue that has grown 20 percent or more for four straight years) as a share of total employment.</i>	8	15.50%
Job Churning. <i>The number of new start-ups and business failures, combined, as a share of all companies in each state</i>	36	2.00%
Initial Public Offerings <i>The value of the initial public stock offerings of companies as a share of gross state product.</i>	32	0.15%
Aggregated Digital Economy Scores	22	6.2
Online Population <i>The percentage of adults with Internet access in each state.</i>	32	28%
Commercial Internet Domain Names <i>The number of commercial Internet domain names (".com") per firm.</i>	29	0.19
Technology in Schools <i>A weighted measure of the percentage of classrooms wired for the Internet, teachers with technology training, and schools with more than 50 percent of teachers having school-based e-mail accounts.</i>	28	1.78
Digital Government <i>A measure of the utilization of digital technologies in state governments.</i>	4	73.5
Aggregated Innovation Capacity Scores	27	5.11
High-Tech Jobs <i>Jobs in high-tech electronics manufacturing, software and computer-related services, and telecommunications as a share of total employment.</i>	27	3.30%
Scientists and Engineers <i>Civilian scientists and engineers as a percentage of the workforce.</i>	31	0.34%
Patents <i>The number of patents issued to companies or individuals per 1,000 workers.</i>	33	0.25
Industry Investment in R&D <i>Private sector investment in research and development as a share of Gross State Product.</i>	19	1.50%
Venture Capital <i>Venture capital invested as a percentage of Gross State Product.</i>	16	0.11%

Source: Progressive Policy Institute

Appendix B. Metropolitan Area New Economy Index Rankings

Rank	Area	Score	Rank	Area	Score
1	San Francisco	95.6	26	Richmond	32.3
2	Austin	77.9	27	St. Louis	31.9
3	Seattle	68.0	28	Detroit	31.8
4	Raleigh-Durham	61.4	29	Indianapolis	31.0
5	San Diego	61.4	30	Charlotte	31.0
6	Washington	60.6	31	Buffalo	30.9
7	Denver	58.1	32	Nashville	30.6
8	Boston	54.0	33	Cleveland	29.5
9	Salt Lake City	49.8	34	Cincinnati	28.9
10	Minneapolis	49.0	35	Las Vegas	28.8
11	Atlanta	48.6	36	Columbus	28.5
12	Dallas	46.0	37	Pittsburgh	27.1
13	Miami	45.6	38	New Orleans	27.0
14	Houston	45.3	39	Oklahoma City	27.0
15	Portland	42.7	40	Milwaukee	26.5
16	Phoenix	41.6	41	West Palm Beach	25.8
17	New York	39.5	42	Dayton	25.7
18	Philadelphia	38.3	43	Tampa	22.8
19	Chicago	37.7	44	Norfolk	22.4
20	Los Angeles	37.4	45	Greensboro	21.0
21	Rochester	36.1	46	Louisville	19.8
22	Hartford	35.6	47	Memphis	19.2
23	Sacramento	35.5	48	Jacksonville	18.7
24	Kansas City	35.0	49	San Antonio	15.0
25	Orlando	34.3	50	Grand Rapids	13.6
Top 50 Metro Average			37.6		

Source: Progressive Policy Institute

Indicators for Kansas City	Rank	Score
Overall Score	24	35.0
Aggregated Knowledge Jobs	36	8.9
Managerial, Professional & Tech Jobs <i>Managers, professionals, and technicians as a share of the total workforce.</i>	21	37%
Workforce Education <i>A weighted measure of the educational attainment (advanced degrees, bachelor's degrees, or some college course work) of the workforce.</i>	42	0.52
Aggregated Globalism Scores	22	9.4
Export Focus Of Manufacturing <i>Manufacturing export sales per manufacturing worker.</i>	22	\$33,000
Aggregated Economic Dynamism Scores	20	10.0
"Gazelle" Jobs <i>Jobs in gazelle companies (companies with annual sales revenue growth 20 percent or more for four straight years) as a share of total employment.</i>	13	10.5%
Job Churning <i>A score based on the number of new start-ups and business failures within each metro.</i>	31	9.8
New Publicly Traded Companies <i>The number of companies' initial public stock offerings as a share of gross metropolitan product.</i>	18	3.4
Aggregated Digital Economy Scores	12	10.8
Online Population <i>The percentage of adults with Internet access at work or at home.</i>	14	46.1%
Broadband Telecommunications Capacity <i>The number of broadband competitors per zip code area.</i>	49	2.00
Computer Use In Schools <i>The percentage of children using computers in the classroom.</i>	11	75%
Commercial Internet Domain Names <i>The number of commercial Internet domain names (".com") per total number of businesses.</i>	25	0.81
Internet Backbone <i>Total capacity of all Internet backbone links to other metropolitan areas as share of employment.</i>	2	78
Aggregated Innovation Capacity	41	7.5
High-Tech Jobs <i>Jobs in electronics and high-tech electronics manufacturing, software and computer-related services, telecommunications, data processing and information services, biomedical and electromedical services as a share of total employment.</i>	18	3.8%
Degrees Granted In Science and Engineering <i>A weighted measure of the degrees granted in scientific and technical fields as a share of the workforce.</i>	45	9.3
Patents <i>The number of utility patents issued to companies or individuals per 1,000 workers.</i>	44	0.18
Academic R&D <i>A combined measure of industry investment in R&D at academic institutions and total academic R&D.</i>	46	9.5
Venture Capital <i>Venture capital invested as a share of gross metropolitan product.</i>	43	0.04%

Source: Progressive Policy Institute

Indicators for St. Louis	Rank	Score
Overall Score	27	31.9
Aggregated Knowledge Jobs	37	8.4
Managerial, Professional & Tech Jobs <i>Managers, professionals, and technicians as a share of the total workforce.</i>	37	33%
Workforce Education <i>A weighted measure of the educational attainment (advanced degrees, bachelor's degrees, or some college course work) of the workforce.</i>	35	.54
Aggregated Globalism Scores	41	8.7
Export Focus Of Manufacturing <i>Manufacturing export sales per manufacturing worker.</i>	41	\$21,000
Aggregated Economic Dynamism Scores	18	10.1
"Gazelle" Jobs <i>Jobs in gazelle companies (companies with annual sales revenue growth 20 percent or more for four straight years) as a share of total employment.</i>	10	10.6%
Job Churning <i>A score based on the number of new start-ups and business failures within each metro.</i>	20	10.1
New Publicly Traded Companies <i>The number of companies' initial public stock offerings as a share of gross metropolitan product.</i>	29	1.8
Aggregated Digital Economy Scores	26	8.2
Online Population <i>The percentage of adults with Internet access at work or at home.</i>	29	40.8%
Broadband Telecommunications Capacity <i>The number of broadband competitors per zip code area.</i>	46	2.05
Computer Use In Schools <i>The percentage of children using computers in the classroom.</i>	2	80%
Commercial Internet Domain Names <i>The number of commercial Internet domain names (".com") per total number of businesses.</i>	45	.48
Internet Backbone <i>Total capacity of all Internet backbone links to other metropolitan areas as share of employment.</i>	12	44
Aggregated Innovation Capacity	17	9.7
High-Tech Jobs <i>Jobs in electronics and high-tech electronics manufacturing, software and computer-related services, telecommunications, data processing and information services, biomedical and electromedical services as a share of total employment.</i>	27	3.0%
Degrees Granted In Science and Engineering <i>A weighted measure of the degrees granted in scientific and technical fields as a share of the workforce.</i>	15	10.3
Patents <i>The number of utility patents issued to companies or individuals per 1,000 workers.</i>	30	.41
Academic R&D <i>A combined measure of industry investment in R&D at academic institutions and total academic R&D.</i>	6	10.5
Venture Capital <i>Venture capital invested as a share of gross metropolitan product.</i>	15	.34%

Source: Progressive Policy Institute